

## Message Text

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C O N F I D E N T I A L STATE 158660

USEEC

FOLLOWING REPEAT LONDON 9702 SENT ACTION SECSTATE JUN 19.

QUOTE: C O N F I D E N T I A L LONDON 09702

PASS KATZ; ALSO PASS ELECTRONICALLY AGRICULTURE FOR  
HATHAWAY AND STR FOR WOLFF

E.O. 11652: GDS  
TAGS: EAGR, ETRD, OCON  
SUBJECT: U.S.-EC BILATERAL - JUNE 20

REF: (A) LONDON 9610 (B) LONDON 9608

1. SUMMARY. IN AN EFFORT TO IMPROVE THE PROSPECTS FOR  
SUCCESSFULLY CONCLUDING THE SECOND INTERIM COMMITTEE  
MEETING, THE DELEGATION BELIEVES AGREEMENT AT A POLITICAL  
LEVEL ON SEVERAL ISSUES IS NECESSARY. BELOW ARE THE DEL-  
EGATION'S VIEWS ON THE ISSUES WHICH SHOULD BE RESOLVED  
DURING THE U.S.-EC BILATERAL ON JUNE 20 AND RECOMMENDA-  
TIONS ON U.S. POSITIONS. END SUMMARY.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 158660

2. THE MEETING WITH RABOT ON TUESDAY, JUNE 20, OFFERS  
IDEAL OPPORTUNITY TO BEGIN SWEEPING CERTAIN GRAIN ISSUES  
OFF THE TABLE IN ORDER TO ENHANCE THE LIKELIHOOD OF CON-  
CLUDING NECESSARY RESULTS IN THE GRAIN TALKS BY JUNE 22.  
SPECIFICALLY, AN ATTEMPT SHOULD BE MADE TO REACH AGREE-  
MENT ON:

A. THE OUTCOME OF THE COARSE GRAIN AGREEMENT

NEGOTIATIONS;

B. THE RESULTS TO BE ACHIEVED ON WHEAT IN THE INTERIM COMMITTEE BY JUNE 22; AND

C. THE NECESSITY OF CONVENING ANOTHER MEETING OF THE GROUP OF SIX (U.S., CANADA, AUSTRALIA, ARGENTINA, JAPAN AND EC) BEFORE MID-JULY TO AGREE ON PRICE INDICATOR POINTS, RESERVE SIZE, AND RESERVE SHARES, SHOULD WASHINGTON BELIEVE SUCH RESULTS ARE NECESSARY BY JULY 15.

3. COARSE GRAINS. PER INSTRUCTIONS, THE DELEGATION HAS PLAYED A LOW-PROFILE, CONSTRUCTIVE ROLE IN THE COARSE GRAINS DISCUSSIONS IN ORDER TO GIVE THE EC ADEQUATE OPPORTUNITY TO ATTEMPT TO CONVINCE OTHERS OF THE NECESSITY FOR A COARSE GRAINS AGREEMENT WITH INDICATOR AND NOTIONAL PRICES. THE EC WAS UNSUCCESSFUL IN THIS EFFORT, WITH OTHERS CONCEDING ONLY TO A CONSULTATIVE COARSE GRAINS ARRANGEMENT WITH NO INDICATOR AND NOTIONAL PRICES. MOST OTHER DELEGATIONS HAVE ARGUED THAT CONSULTATIONS COULD SIMPLY BE TRIGGERED AT THE REQUEST OF ANY MEMBER NATION, THUS THERE IS NO NEED FOR INDICATOR PRICES.

4. FOR ITS PART, THE U.S. HAS PRESSED THE EC ON ITS WILLINGNESS TO INCLUDE A COMMITMENT TO UNDERTAKE UTILIZATION ADJUSTMENTS IN A COARSE GRAINS ARRANGEMENT. THE EC HAS FLATLY STATED THAT IT WOULD NOT REPEAT NOT UNDERTAKE UTILIZATION OR PRODUCTION ADJUSTMENTS, BUT MAY  
CONFIDENTIAL

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PAGE 03 STATE 158660

UNDERTAKE STOCK ACTION.

5. IT IS THE DELEGATION'S VIEW, THAT WE HAVE COME TO THE POINT IN THE COARSE GRAINS DISCUSSIONS WHERE A POLITICAL DECISION ON THE PART OF THE U.S. AND EC IS NECESSARY TO NEGOTIATE A CONSULTATIVE ARRANGEMENT WITH NO REPEAT NO INDICATOR OR NATIONAL PRICES. A COMMITMENT TO CONSULT AT THE REQUEST OF ANY MEMBER WOULD BE AN APPROPRIATE COMPROMISE. SUCH AN ARRANGEMENT WOULD ALSO INCLUDE AN INSTITUTIONAL MECHANISM FOR THE EXCHANGE OF INFORMATION.

6. THE DELEGATION RECOMMENDS THAT THE OCCASION OF THE U.S.-EC BILATERAL ON JUNE 20 BE USED TO CONCLUDE SUCH A COMPROMISE ON COARSE GRAINS. THE U.S. SIDE SHOULD ARGUE THAT:

A. DESPITE THE FACT THAT THE U.S. HAS GIVEN THE EC ADEQUATE OPPORTUNITY IN THE INTERIM COMMITTEE (I.E., 2 WEEKS) TO CONVINCE OTHER DELEGATIONS OF THE NEED FOR INDICATOR AND NOTIONAL PRICES IN A COARSE GRAINS ARRANGEMENT, NO OTHER DELEGATION IS INTERESTED TO NEGOTIATING SUCH AN ARRANGEMENT.

B. THE EC HAS FLATLY STATED THAT IT WILL NOT UNDERTAKE A COMMITMENT TO SHARE IN UTILIZATION ADJUSTMENTS IN A COARSE GRAINS AGREEMENT WHICH IS AN ABSOLUTE CONDITION FOR THE U.S. TO AGREE TO INCLUDING INDICATOR PRICES IN A COARSE GRAINS ARRANGEMENT.

C. THE ONLY POSSIBLE COMPROMISE IS THE NEGOTIATION OF A CONSULTATIVE ARRANGEMENT (AS DESCRIBED IN PARA 5).

7. A POLITICAL DECISION TO NEGOTIATE SUCH A CONSULTATIVE AGREEMENT NOW WOULD PROVIDE THE DELEGATION SUFFICIENT OPPORTUNITY TO CONCLUDE A DRAFT OF SUCH AN ARRANGEMENT BY JUNE 22, THEREBY SWEEPING THE TABLE OF THE COARSE GRAINS ISSUE AND ALLOWING NEGOTIATIONS ON WHEAT TO PROCEED. THE U.S. COULD CONTINUE TO PRESS IN THE CONFIDENTIAL

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PAGE 04 STATE 158660

MTN FOR A CONCESSION TO INCREASE FEED GRAIN UTILIZATION IN THE EC.

8. IF NO SUCH POLITICAL DECISION IS MADE DURING THE BILATERAL, IT IS LIKELY THAT THE U.S. WILL BE ACCUSED OF STALLING THE NEGOTIATIONS SINCE WE WILL BE UNABLE TO PRESENT STRONG TECHNICAL ARGUMENTS FOR NOT INCLUDING INDICATOR AND NOTIONAL PRICES IN A COARSE GRAINS ARRANGEMENT. NO SUCH STRONG ARGUMENTS EXIST. THE RATIONALE FOR THE U.S. POSITION ON THIS MATTER IS MORE POLITICAL THAN TECHNICAL.

9. JUNE 22 RESULTS. THE DELEGATION ALSO SUGGESTS THAT, DURING THE BILATERAL, THE PARTIES AGREE ON WHAT KIND OF RESULTS SHOULD BE ACHIEVED BY JUNE 22 IN THE INTERIM COMMITTEE. ON WHEAT, WE HOPE TO CONCLUDE DRAFT ARTICLES ON THE CORE PROVISIONS INCLUDING OBJECTIVES, THE CONCEPT OF NOTIONAL PRICES, AND THE ACTIONS TO BE TAKEN AT EACH OF THE SIX ACTION POINTS. SHOULD THE POLITICAL DECISION BE MADE DURING THE BILATERAL TO NEGOTIATE A CONSULTATIVE COARSE GRAINS ARRANGEMENT, WE WOULD ALSO BE ABLE TO CONCLUDE THE DRAFT OF SUCH AN ARRANGEMENT BY JUNE 22.

10. THE INDICATOR PRICE, RESERVE SIZE, AND RESERVE SIZE/HARE ISSUES SHOULD NOT BE INTRODUCED IN THE INTERIM COMMITTEE UNTIL THE CORE PROVISIONS ON WHEAT ARE AGREED TO AND AN ACCOMMODATION ON COARSE GRAINS IS REACHED. THE INTRODUCTION OF THESE ISSUES NOW WOULD SERIOUSLY COMPLICATE THE NEGOTIATIONS AND WOULD LIKELY JEOPARDIZE REACHING AGREEMENT ON THE CORE PROVISIONS.

11. ADDITIONAL RESULTS. SHOULD WASHINGTON BELIEVE THAT ADDITIONAL RESULTS (I.E., SOMETHING ON INDICATOR PRICE CONFIDENTIAL

CONFIDENTIAL

PAGE 05 STATE 158660

LEVELS, RESERVE SIZE, AND RESERVE SHARES) ARE NECESSARY BY JULY 15, AGREEMENT SHOULD BE REACHED DURING THE BILATERAL TO CONVENE ANOTHER MEETING OF THE GROUP OF 6 BEFORE JULY 15 TO ACHIEVE THESE RESULTS. WE BELIEVE THAT THE IMPORTERS WILL NOT AGREE TO NEGOTIATE ON RESERVES WITHOUT ALSO NEGOTIATING ON INDICATOR PRICE LEVELS. THUS, IF WASHINGTON FEELS ADDITIONAL RESULTS ARE NECESSARY, WE MUST BE PREPARED TO DISCUSS SPECIFIC INDICATOR PRICE LEVELS BEFORE JULY 15. FOR REASONS CITED IN PARA 10, WE BELIEVE THESE ISSUES SHOULD NOT BE RAISED BEFORE JUNE 22.

12. NOTIONAL PRICE PROVISIONS. EC WILL LIKELY PRESS DURING BILATERAL FOR ACCEPTANCE OF ITS CONCEPT OF NOTIONAL PRICES AS PRESENTED IN TEXT REFTEL B. IN INTERIM COMMITTEE, U.S. AND OTHER EXPORTERS STRONGLY OPPOSED EC ARTICLE ON NOTIONAL PRICES PROVISIONS ON GROUNDS THAT:

A. IT IMPLIES OBLIGATIONS TO RESPECT THE NOTIONAL PRICES; AND

B. IT REINTRODUCES THE CONCEPTS OF QUALITY AND FREIGHT RATE DIFFERENTIALS AND THEREBY ASSIGN MISLEADING, UNNECESSARY PROVISION TO NOTIONAL PRICES. EXPORTER REJECTION OF EC ARTICLE PROVOKED HEATED DEBATE WITH EC DEL (JACQUOT). AS ALTERNATIVE TO EC INTERPRETATION, U.S. DEL HAS ARGUED THAT NOTIONAL PRICE PROVISIONS WOULD BE INTERPRETED AS FOLLOWS: A SINGLE FIGURE WOULD BE GIVEN FOR THE LOWER NOTIONAL PRICE AND A SINGLE FIGURE FOR THE UPPER NOTIONAL PRICE. THESE PRICES WOULD APPLY TO ALL CLASSES OF WHEAT AT ALL FOB POSITIONS. IF ANY MEMBER'S WHEAT WERE TRADING OUTSIDE OF THIS RANGE, THEN THE NOTIONAL PRICES WOULD BE CONSIDERED BREACHED. HOWEVER, THIS WOULD NOT IMPLY ANY VIOLATION OF THE PROVISIONS OF THE AGREEMENT. IT WOULD ONLY SIGNAL THE NEED FOR INTENSIFIED EFFORTS TO IMPLEMENT THE JOINT ACTIONS UNDERTAKEN AT THE THIRD PRICE POINT ON THE IN-

CONFIDENTIAL

CONFIDENTIAL

PAGE 06 STATE 158660

INDICATOR SCALE.

13. UNLESS OTHERWISE INSTRUCTED, WE WILL ATTEMPT TO CONCLUDE THE INTERIM COMMITTEE ON JUNE 22 WITH RESULTS AS DETAILED IN PARA 7 OF REFTEL A.

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## Message Attributes

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